

Florida's record over a four-year
"watch" at the FDIC:

Remarks by

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Good afternoon, ladies and gentlemen. I'd like to thank Len Apcar -- who has made this visit so pleasant. It is a real pleasure to be here with you in beautiful Florida.

As I'm sure you remember, today is the day that, according to legend, the swallows fly away from the Mission of San Juan Capistrano in California. So I thought it only appropriate that I, too, head south! I also thought given my experience recently in Washington, an appropriate topic for today should simply be: Is this world for the birds?

But before proceeding, I also must acknowledge my introducer, Mr. Hugh McColl. The FDIC certainly owes him a debt of gratitude. Why?

First, on a personal level, I must thank him for such a kind introduction. I value it because of its source.

Second, as Chairman of NCNB, Hugh has been one of the FDIC's best customers, providing us with an excellent bid for First Republic, and then going out and making some money in Texas!

I take it that he and his organization subscribe to that old adage that "no one likes money -- but it certainly quiets the nerves!..." [Pause]

NCNB also was the successful bidder on two of the Resolution Trust Corporation's first four big deals. And of course, one of those transactions, Freedom Savings and Loan Association, is right here in Tampa.

So, for what its worth, many thanks to you and NCNB, Hugh!

Let's briefly look at Florida's record over my four year "watch" at the FDIC. Speaking as an insurer, we find your bankers to be good risks.

-- 13 Florida banks failed representing only 1.7 percent of all failed bank activity in the country during this period.

Contrast that with Texas's 45 percent share, and keep in mind that Florida is still left with 428 banks.

-- Failed Florida banks had \$1.8 billion in assets representing 2 percent of failed bank assets handled during this four year period.

-- FDIC outlays totalled \$723 million for Florida failures or 3.3 percent of all outlays.

-- The FDIC's cost for failed banks in Florida over the four year period was \$320 million or 2.2 percent of all the cost the FDIC incurred during this period. Compare that to the \$9.3 billion the FDIC spent in Texas.

Florida banks continued to increase their profitability in the first half of 1989. If they can maintain this trend for the rest of the year, it will mark the third consecutive year of earnings improvement.

Not bad, but Florida's banks do have some problems developing in the asset quality area. Nonperforming assets in Florida's banks, especially its largest and smallest institutions, have increased modestly since last year.

Although the capital position of most Florida banks is still above national averages, that too is slipping. If that trend is not reversed, Florida's banks could find themselves below the national equity-to-assets ratio average for the first time since 1986.

My main subject today is -- what the FDIC and RTC are going to be doing in Florida in the next couple years, mostly regarding Florida's thrifts.

1. We'll be supervising your state nonmember banks -- with increasing reliance on Comptroller Lewis and his fine staff. Altogether we have to help look after 428 banks in Florida.
2. We'll be supervising and selling our \$10 billion inventory of FDIC assets, with over \$400 million of that being from banks that failed right here in Florida.
3. We'll be supervising and selling \$12 billion held by the Old FSLIC, with a net realizable value of \$9.3 billion, with over \$250 million just in real estate resulting from Florida thrift failures.
4. We'll be policing \$57 billion of income maintenance contracts covering real estate. As many as \$1 billion of those covered assets are from failed Florida thrifts.
5. We'll be providing backup supervision for Florida's 131 thrifts in coordination with the Office of Thrift Supervision.
6. We'll be running the RTC, which has 13 Florida thrifts in conservatorship or receivership, with about \$5 billion in assets. Over the next three years we expect to handle as many as another 15 thrifts in Florida, with approximately \$24 billion in assets.

We expect that the RTC will be handling almost \$300 billion in assets from failed thrifts across the country over the next three years. Out of that, we estimate that \$175 billion in assets will be managed by the RTC, with the remainder being sold almost immediately to the private sector. Of the \$175 billion, \$100 billion will be illiquid and long-term assets. Regarding assets from failed Florida thrifts, as much as \$20 billion in assets will be managed by the RTC, with as much as \$10 billion being illiquid and long-term assets.

Bill Dudley is heading the RTC's Eastern Regional Office headquartered in Atlanta. (404) 522-1145. The RTC also has a field site in Tampa, which can be contacted at P.O 20587, Tampa, Florida 33622-0587. [(813) 870-5356 at Freedom.] The person in-charge is Jimmy R. Caldwell, and he now has 24 employees working with him. Within two years the RTC staffing in Florida is projected to reach as many as 500 employees. We also plan to hire significant numbers of private sector contractors.

I would also like to mention that as part of our Congressionally mandated liquidating sale of the Federal Asset Disposition Association, or FADA, the FDIC is now selling the assets FADA managed. As you may of heard, recently we put FADA up on the auction block, and have already received over 250 inquiries.

This week we announced that we are now offering for sale as a package the \$430 million in real estate that was managed by FADA, located in Texas, California, Colorado, Arizona, and -- by coincidence -- in Florida.

This block is composed of 150 properties. In Florida 26 properties are for sale.

As you can see, the FDIC is very much involved in the real estate business -- as they say, we are now neck deep and sinking.

Thus, we plan to continue our policy that everything is for sale at current fair market value, at least until the RTC Oversight Board decides another approach is more appropriate. Whether to sell or hold these properties has been one of the most politically charged issues of this entire debate. Sell or dump that's the question -- and it reminds me of what Woody Allen once said to a commencement class:

"More than any other time in history, mankind faces a crossroads. One path leads to despair and utter hopelessness. The other lead to total extinction. Let's pray we have the wisdom to choose correctly!"

As noted, our view is that selling at current values is the best way to insure market recoveries. Holding property off the market only builds up inventories and uncertainty in the market as to true property values. In that case there is always the

concern that as soon as values start to creep back up, the government would sell and depress the market. By getting properties back into private hands the market can make its own judgements and get to work on recovery.

For those of you who are particularly concerned about this issue, I would like to put your minds at ease ---- at least temporarily. I've told you about what we have for sale now. But the RTC won't be adding billions of dollars worth of Florida real estate to the marketplace tomorrow or next month or even much next year.

That's because the RTC doesn't have billions of dollars worth of Florida real estate ready for sale now. The majority of the property we are talking about today is tied up as collateral on loans, or it's tied up in income maintenance contracts -- which provide owners with several years of income before it can be sold.

Even in cases where theoretically we could sell, it may take upwards of a year just to gain clear titles.

As a matter of fact, one of our toughest short-term tasks is coming up with an asset inventory for the new RTC by year-end. We are working hard right now so the market will know what is for sale.

One thing is abundantly clear so far -- running the RTC will not prove the most popular or easiest job in town. And people are already lining up to look over our shoulders. The RTC -- or, as I sometimes call it, "The House of 1000 auditors" -- will be, I believe, the most heavily audited agency ever created.

GAO, two Inspector Generals, the RTC Oversight Board, OMB, and the House and Senate Banking Committees will all be looking over the RTC's shoulders.

We'll be reviewing the 1988 deals -- the so-called "December" transactions. The RTC is required to evaluate the cost of these agreements and document its analysis and findings for the public. Where necessary, it will review each bidding process to insure that it was sufficiently competitive. Another primary goal will be to look for ways to reduce agreement costs where possible, including restructuring the agreements when necessary.

We plan to hire private sector groups to help facilitate a more timely and impartial review. We hope to have these reviews completed within nine to twelve months. If you want more details on this review, let us know.

One of our most pressing problems right now is how to pay for the handling of failed thrifts over the next three years. The new legislation provides the RTC with \$50 billion for this purpose. We estimate it will take all of it to cover the insolvent thrifts' negative net worth.

But it won't provide enough to cover the funds needed for working capital.

If we are forced to net this working capital against the \$50 billion Congress provided, we will quickly deplete our resources. So we have to borrow our working capital to cover the short fall and allow us to use the \$50 billion efficiently.

As you can see, the problem is one of timing, not cost.

The question is -- Who do we borrow from to provide the working capital?

We and the RTC Oversight Board will develop policies on how such working capital will be raised. In doing so, the Oversight Board will have to address legitimate concerns in Congress and elsewhere over whether the financing will be on- or off-budget, and whether adequate safeguards are in place to ensure that such financing cannot be used to increase the costs to taxpayers. However, policies on financing working capital must be put in place soon if the RTC is to be able to operate.

I'd like to turn now to your questions and comments, and thank each of you for your kind attention.